

0000153686

## BEFORE THE ARIZONA CORPORATION COMMISSION

**COMMISSIONERS**

BOB STUMP - Chairman

GARY PIERCE

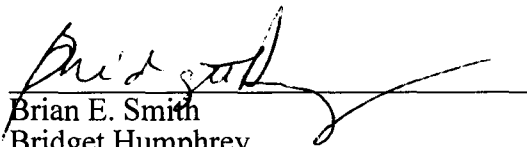
BRENDA BURNS

BOB BURNS

SUSAN BITTER SMITH

RECEIVED  
AZ CORPORATION COMMISSION  
DOCKET CONTROL**ORIGINAL** 2014 JUN 2 PM 3 35IN THE MATTER OF THE REORGANIZATION  
OF UNS ENERGY CORPORATION.DOCKET NO. E-04230A-14-0011  
E-01933A-14-0011**STAFF'S NOTICE OF FILING  
TESTIMONY IN SUPPORT OF THE  
SETTLEMENT AGREEMENT**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Testimony of Steven M. Olea in support of the Settlement Agreement in the above docket.

RESPECTFULLY SUBMITTED this 2<sup>nd</sup> day of June, 2014.
  
 Brian E. Smith  
 Bridget Humphrey  
 Attorneys, Legal Division  
 Arizona Corporation Commission  
 1200 West Washington Street  
 Phoenix, Arizona 85007

Original and thirteen (13) copies  
of the foregoing filed this  
2<sup>nd</sup> day of June 2014 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Arizona Corporation Commission

**DOCKETED**

JUN 02 2014

DOCKETED BY



1 Copy of the foregoing emailed and/or  
mailed this 2<sup>nd</sup> day of June 2014 to:

2 Bradley S. Carroll  
3 UNS Energy Corporation  
88 East Broadway Boulevard  
4 MS HQE910  
Post Office Box 711  
5 Tucson, Arizona 85702  
[bcarroll@tep.com](mailto:bcarroll@tep.com)  
6 Attorneys for UNS Energy Corporation

7 Michael W. Patten  
Roshka DeWulf & Patten, PLC  
8 One Arizona Center  
400 East Van Buren Street, Suite 800  
9 Phoenix, Arizona 85004  
[mpatten@rdp-law.com](mailto:mpatten@rdp-law.com)  
10 Attorneys for UNS Energy Corporation

11 Patricia Lee Refo  
Snell & Wilmer, LLP  
12 One Arizona Center  
400 East Van Buren Street, Suite 1900  
13 Phoenix, Arizona 85004  
[prefo@swlaw.com](mailto:prefo@swlaw.com)  
14 Attorney for Fortis Inc.

15 Daniel Pozefsky, Chief Counsel  
Residential Utility Consumer Office  
16 1110 West Washington Street  
Phoenix, Arizona 85007  
17 [dpozefsky@azruco.gov](mailto:dpozefsky@azruco.gov)

18 C. Webb Crockett  
Patrick J. Black  
19 Fennemore Craig, PC  
2394 East Camelback Road, Suite 600  
20 Phoenix, Arizona 85016  
[wcrockett@fclaw.com](mailto:wcrockett@fclaw.com)  
21 [pblack@fclaw.com](mailto:pblack@fclaw.com)  
Attorneys for Freeport-McMoRan Copper  
22 & Gold Inc. and Arizonans for Electric  
Choice and Competition

23 Thomas L. Mumaw  
24 Melissa Krueger  
Pinnacle West Capital Corporation  
25 Post Office Box 53999, MS 8695  
Phoenix, Arizona 85072-3999  
26 [Thomas.Mumaw@pinnaclewest.com](mailto:Thomas.Mumaw@pinnaclewest.com)  
[Melissa.Krueger@pinnaclewest.com](mailto:Melissa.Krueger@pinnaclewest.com)  
27 Attorneys for Arizona Public Service  
Company

Meghan H. Grabel  
Arizona Public Service Company  
Post Office Box 53999, MS 9708  
Phoenix, Arizona 85072-3999  
[Meghan.Grabel@aps.com](mailto:Meghan.Grabel@aps.com)  
Attorneys for Arizona Public Service  
Company

Cynthia Zwick  
Arizona Community Action Association  
2700 North 3<sup>rd</sup> Street, Suite 3040  
Phoenix, Arizona 85004  
[czwick@azcaa.org](mailto:czwick@azcaa.org)

Lawrence V. Robertson, Jr.  
Post Office Box 1448  
Tubac, Arizona 85646  
[tubaclawyer@aol.com](mailto:tubaclawyer@aol.com)  
Attorney for Noble Solutions and SAHBA

Nicholas J. Enoch  
Jarrett J. Haskovec  
Lubin & Enoch, PC  
349 North Fourth Avenue  
Phoenix, Arizona 85003  
[nick@lubinandenoch.com](mailto:nick@lubinandenoch.com)  
[Jarrett@lubinandenoch.com](mailto:Jarrett@lubinandenoch.com)  
Attorneys for IBEW Locals 387, 769 and 1116

Michael M. Grant  
Jennifer A. Cranston  
Gallagher & Kennedy, PA  
2575 East Camelback Road  
Phoenix, Arizona 85016-9225  
[mmg@gknet.com](mailto:mmg@gknet.com)  
[jennifer.cranston@gknet.com](mailto:jennifer.cranston@gknet.com)  
Attorneys for AIC

Gary Yaquinto, President & CEO  
Arizona Investment Council  
2100 North Central Avenue, Suite 210  
Phoenix, Arizona 85004  
[gyaquinto@arizonaic.org](mailto:gyaquinto@arizonaic.org)

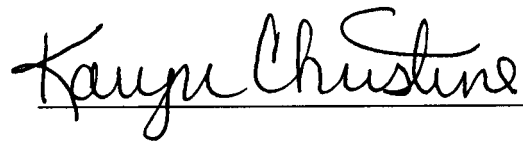
Timothy M. Hogan  
Arizona Center for Law in the Public Interest  
202 East McDowell Road, Suite 153  
Phoenix, Arizona 85004  
[thogan@aclpi.org](mailto:thogan@aclpi.org)  
Attorneys for SWEEP

1 Jeff Schlegel  
SWEEP Arizona Representative  
2 1167 West Samalayuca Drive  
Tucson, Arizona 85704-3224  
3 [schlegelj@aol.com](mailto:schlegelj@aol.com)  
4 Michael A. Curtis  
William P. Sullivan  
5 Larry K. Udall  
Curtis, Goodwin, Sullivan,  
6 Udall & Schwab, PLC  
501 East Thomas Road  
7 Phoenix, Arizona 85012  
[Mcurtis401@aol.com](mailto:Mcurtis401@aol.com)  
8 [Wsullivan@cgsuslaw.com](mailto:Wsullivan@cgsuslaw.com)  
[ludall@cgsuslaw.com](mailto:ludall@cgsuslaw.com)  
9 Attorneys for Mohave Electric Cooperative,  
Inc. and Navopache Electric Cooperative  
10 Peggy Gillman  
11 Manager of Public Affairs and  
Energy Services  
12 Mohave Electric Cooperative, Inc.  
Post Office Box 1045  
13 Bullhead City, Arizona 86430  
[pgillman@mohaveelectric.com](mailto:pgillman@mohaveelectric.com)  
14 Charles R. Moore  
15 Navopache Electric Cooperative  
1878 West White Mountain Boulevard  
16 Lakeside, Arizona 85929  
[cmoore@navopache.org](mailto:cmoore@navopache.org)  
17 Joe L. Machado  
18 Michael J. Massee  
City Attorney's Office  
19 777 North Grand Avenue  
Nogales, Arizona 85621  
20 [mmassee@nogalesaz.gov](mailto:mmassee@nogalesaz.gov)  
21 Christopher Hitchcock  
Law Offices of Christopher Hitchcock  
22 Post Office Box AT  
Bisbee, Arizona 85603-0115  
23 [lawyers@bisbeelaw.com](mailto:lawyers@bisbeelaw.com)  
Attorneys for SSVEC  
24 Jack Blair  
25 311 East Wilcox Drive  
Sierra Vista, Arizona 85635-2527  
26 [jackb@SSVEC.com](mailto:jackb@SSVEC.com)

Court S. Rich  
Rose Law Group pc  
7144 East Stetson Drive  
Suite 300  
Scottsdale, Arizona 85250  
[crich@roselawgroup.com](mailto:crich@roselawgroup.com)  
Attorneys for TASC

Garry D. Hays  
Law Offices of Garry D. Hays  
1702 East Highland Avenue, Suite 204  
Phoenix, Arizona 85016  
[ghays@lawgdh.com](mailto:ghays@lawgdh.com)  
Attorneys for ASDA

Giancarlo G. Estrada  
Estrada-Legal, PC  
One East Camelback Road, Suite 550  
Phoenix, Arizona 85012  
[gestrada@estradalegalpc.com](mailto:gestrada@estradalegalpc.com)  
Attorney for SEIA

  
\_\_\_\_\_

**BEFORE THE ARIZONA CORPORATION COMMISSION**

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION )  
FOR APPROVAL OF THE REORGANIZATION )  
OF UNS ENERGY CORPORATION ON )  
BEHALF OF ITSELF AND ITS AFFILIATES )  
UNISOURCE ENERGY SERVICES AND )  
TUCSON ELECTRIC POWER COMPANY )

---

DOCKET NOS. E-01933A-14-0011  
E-04230A-14-0011

TESTIMONY

IN SUPPORT OF

THE PROPOSED SETTLEMENT AGREEMENT

STEVEN M. OLEA

DIRECTOR

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 2, 2014

## **TABLE OF CONTENTS**

	<u>Page</u>
SECTION I – INTRODUCTION.....	1
SECTION II – SETTLEMENT PROCESS.....	4
SECTION III – SETTLEMENT AGREEMENT .....	6
SECTION IV – PUBLIC INTEREST .....	7

**EXECUTIVE SUMMARY**  
**UNS ENERGY CORPORATION**  
**DOCKET NOS. E-01933A-14-0011 AND E-04230A-14-0011**

Mr. Olea's testimony supports the adoption of the Settlement Agreement ("Agreement") as proposed by the Signatories in this case. This testimony describes the settlement process as open, candid, transparent and inclusive of all parties to this case. Mr. Olea explains the reasons the Agreement is in the public interest.

Mr. Olea's testimony recommends that the Commission adopt the Agreement as proposed.

**SECTION I – INTRODUCTION**

**Q. Please state your name and business address.**

A. Steven M. Olea, 1200 West Washington, Phoenix, Arizona, 85007.

**Q. By whom and in what capacity are you employed?**

A. I am employed by the Arizona Corporation Commission (“Commission”) as the Director of the Utilities Division.

**Q. Please state your educational background.**

A. I graduated from Arizona State University (“ASU”) in 1976 with a Bachelors Degree in Civil Engineering. From 1976 to 1978 I obtained 47 graduate hours of credit in Environmental Engineering at ASU.

**Q. Please state your pertinent work experience.**

A. From April 1978 to October 1978, I worked for the Engineering Services Section of the Bureau of Air Quality Control in the Arizona Department of Health Services (“ADHS”). My responsibilities were to inspect air pollution sources to determine compliance with ADHS rules and regulations.

From November 1978 to July 1982, I was with the Technical Review Unit of the Bureau of Water Quality Control (“BWQC”) in ADHS (this is now part of the Arizona Department of Environmental Quality (“ADEQ”). My responsibilities were to review water and wastewater construction plans for compliance with ADHS rules, regulations, and Engineering Bulletins.

1 From July 1982 to August 1983, I was with the Central Regional Office, BWQC, ADHS. My  
2 responsibilities were to conduct construction inspections of water and wastewater facilities to  
3 determine compliance with plans approved by the Technical Review Unit. I also performed  
4 routine operation and maintenance inspections to determine compliance with ADHS rules and  
5 regulations, and compliance with United States Environmental Protection Agency requirements.

6  
7 From August 1983 to August 1986, I was a Utilities Consultant/Water-Wastewater Engineer  
8 with the Utilities Division. My responsibilities were to provide engineering analyses of  
9 Commission regulated water and wastewater utilities for rate cases, financing cases, and  
10 consumer complaint cases. I also provided testimony at hearings for those cases.

11  
12 From August 1986 to August 1990, I was the Engineering Supervisor for the Utilities Division.  
13 My primary responsibility was to oversee the activities of the Engineering Section, which  
14 included one technician and eight Utilities Consultants. The Utilities Consultants included one  
15 Telecommunications Engineer, three Electrical Engineers, and four Water-Wastewater  
16 Engineers. I also assisted the Chief Engineer and performed some of the same tasks as I did as a  
17 Utilities Consultant.

18  
19 In August 1990, I was promoted to the position of Chief Engineer. My duties were somewhat  
20 the same as when I was the Engineering Supervisor, except that now I was less involved with the  
21 day-to-day supervision of the Engineering Staff and more involved with the administrative and  
22 policy aspects of the Engineering Section.

23  
24 In April 2000, I was promoted to the position of one of two Assistant Directors of the Utilities  
25 Division. In this position, I assisted the Division Director in the policy aspects of the Utilities  
26 Division. I was primarily responsible for matters dealing with water and energy.



1 In August 2009, I was promoted to my present position as Director of the Utilities Division. In  
2 this position, I manage the day-to-day operations of the Utilities Division with the assistance of  
3 the two Utilities Division Assistant Directors and oversee the management of the Utilities  
4 Division's Telecom & Energy Section, the Financial & Regulatory Analysis Section, the  
5 Consumer Services Section, the Engineering Section, the Compliance Section and the  
6 Administrative Section. In addition, I am responsible for making policy decisions for the  
7 Utilities Division.

8  
9 In early 2010, I was given the task of being the Interim Director for the Commission's Safety  
10 Division (Railroad and Pipeline). The day-to-day activities of the Safety Division were overseen  
11 by the managers of the Railroad Safety Section and the Pipeline Safety Section with input from  
12 me. Together with the Commission's Executive Director, I was responsible for the policy  
13 decisions for the Safety Division up until a permanent Safety Division Director was hired late in  
14 2012.

15  
16 **Q. What is the purpose of your testimony?**

17 A. The purpose of my testimony is to support the Proposed Settlement Agreement  
18 ("Agreement"). I will also provide testimony which addresses the settlement process, public  
19 interest benefits, substance of the Agreement and general policy considerations.

20  
21 **Q. How is your testimony being presented?**

22 A. My testimony is organized into four sections. Section I is this introduction, Section II  
23 provides discussion of the settlement process, Section III discusses the Agreement, and  
24 Section IV identifies and discusses the reasons why the Agreement is in the public interest.

1 **Q. Will there be other Staff witnesses providing testimony?**

2 A. No.

3  
4 **SECTION II – SETTLEMENT PROCESS**

5 **Q. Did you participate in the negotiations that led to the execution of the Agreement?**

6 A. Yes, I did.

7  
8 **Q. Please discuss the settlement process.**

9 A. The settlement process was open, transparent and inclusive. All parties received notice of the  
10 settlement meetings and were accorded an opportunity to raise, discuss, and propose  
11 resolution to any issue that they desired.

12  
13 **Q. Who participated in those meetings?**

14 A. All parties to the case participated except for Arizona Public Service Company, the City of  
15 Nogales and Sulphur Springs Valley Electric Cooperative.

16  
17 **Q. Could you identify the interests that were involved in this process?**

18 A. The interests included those of residential customers, low income customers, large customers,  
19 other electric utilities, renewable energy advocates, competitive power advocates,  
20 homebuilders, a labor union and energy efficiency advocates.

21  
22 **Q. How many of these parties executed the Agreement?**

23 A. All parties that participated in the settlement meetings except for Southwest Energy  
24 Efficiency Project, Navopache Electric Cooperative and Mohave Electric Cooperative signed  
25 the Agreement.

26

1     **Q.     Was there an opportunity for all issues of each participant to be discussed and**  
2           **considered?**

3     A.     Yes, each party had the opportunity to raise any issue and have it considered.  
4

5     **Q.     Were the Signatories able to resolve all issues?**

6     A.     Yes.  
7

8     **Q.     How would you describe the negotiations?**

9     A.     I believe that all participants zealously advocated and represented their interests. I would  
10           characterize the discussions as candid but professional. All parties had the opportunity to be  
11           heard and to have their positions fairly considered.  
12

13    **Q.     Would you describe the process as requiring give and take?**

14    A.     Yes, I would. As a result of the varied interests represented in the settlement process,  
15           willingness to compromise was necessary. As evidenced in the Agreement, the Signatories  
16           compromised on different litigation positions.  
17

18    **Q.     Because of such compromising, do you believe the public interest was compromised?**

19    A.     No. As I will discuss later in this testimony, I believe that the compromises made by the  
20           Signatories further the public interest.

**SECTION III – SETTLEMENT AGREEMENT**

**Q. Mr. Olea, you have indicated that the Agreement incorporates varied interests including those of the Applicants [UNS Energy Corporation (“UNS Energy”), UNS Energy Services, Inc. (“UES”), Tucson Electric Power Company (“TEP”), UNS Electric, Inc. (“UNS Electric”), UNS Gas, Inc. (“UNS Gas”), Fortis, Inc. (“Fortis”), FortisUS Holdings Nova Scotia Limited (“FortisUS Nova Scotia”), FortisUS Inc. (“FortisUS”), and Color Acquisition Sub Inc. (“Color Acquisition”)];** residential, industrial and commercial customers; energy efficiency and renewable energy groups; home builders; investors; mines; competitive providers; and community action groups. Please discuss how the Agreement addresses their interests.

**A. As indicated in Section 1.8.a through Section 1.8.d, and as detailed in the Agreement, the Applicants agree to the following:**

- TEP, UNS Electric and UNS Gas (collectively the “Regulated Utilities”) shall provide \$30 million of direct customer benefits over 5 years through bill credits of which \$10 million will be payable in year 1 and \$5 million per year will be payable in years 2 through 5.
- To inject \$220 million of equity capital into UNS Energy for the benefit of the Regulated Utilities. This will enable the Regulated Utilities to become a part of a larger, more diverse and financially secure company with a stronger credit rating.
- To financially strengthen UNS Energy and the Regulated Utilities, and enhance the Regulated Utilities’ ability to provide safe, reliable and adequate service, improve their individual capital structures, and preserve or improve their credit ratings.
- To protect ratepayers by establishing appropriate ring fencing measures that will serve to protect each of the Regulated Utilities and its customers; and, improve access to capital markets that will enhance the Regulated Utilities’ ability to obtain sufficient capital to meet their needs, including access to debt capital at lower cost.
- To maintain existing employee levels and employee benefits at the Regulated Utilities for a period of at least 4 years, continue to perform under the existing collective bargaining agreements for the Regulated Utilities, and ensure that all future decisions on staffing, employment practices and labor relations at the Regulated Utilities continue to be made by local management of the Regulated Utilities;
- To retain existing senior management of UNS Energy and the Regulated Utilities in Arizona, and maintain their headquarters in Tucson, Arizona;

- 1 • To appoint a Board of Directors of UNS Energy, with oversight over UNS Energy and the
- 2 Regulated Utilities, a majority of whom will be independent and a majority of whom will be
- 3 resident in Arizona; and,
- 4
- 5 • To continue to support low income assistance programs at or above current levels; sustain
- 6 their contributions to charitable and community programs; and continue to provide energy
- 7 efficiency and renewable energy programs as approved, or may be approved, by the
- 8 Commission.
- 9

10 **Q. Mr. Olea, are there any other issues that you would like to bring to the Commission's**

11 **attention.**

12 A. Yes. Among other things, Section H of the Attachment to the Agreement requires the

13 Applicants to:

- 14 • Prepare or amend the Code of Conduct for the Regulated Utilities similar to that which was
- 15 previously approved for TEP.
- 16 • Maintain an up-to-date organizational chart.
- 17 • Provide various documents listed in Sections 6.5 of the Attachment to Staff and RUCO.
- 18 • Not seek relief from the Commission for any of the Conditions listed in the Agreement or
- 19 Attachment thereto for at least five years.
- 20

21 **Q. Mr. Olea, can you explain how the benefits listed above will be implemented?**

22 A. Please see Attachment A to the Settlement which explains the implementation of the benefits

23 and conditions

24

25 **SECTION IV – PUBLIC INTEREST**

26 **Q. Mr. Olea, is the Agreement in the public interest?**

27 A. Yes, in Staff's opinion, the Agreement is fair, balanced, and in the public interest.

1 **Q. Would you summarize the reasons that lead Staff to conclude that the Agreement is**  
2 **fair, balanced, and in the public interest?**

3 A. The Agreement provides a monetary benefit to ratepayers while at the same time providing  
4 the Regulated Utilities the opportunity to be part of a larger, well financed organization to  
5 enable the Regulated Utilities to not only maintain their existing safe, reliable and adequate  
6 service, but also improve this service.

7  
8 **Q. Mr. Olea, do you believe that the Agreement results in benefits for consumers?**

9 A. Yes. Among other benefits, the Agreement stipulates that there shall be a \$30 million benefit  
10 to ratepayers and no recovery of any acquisition adjustment or transition costs.

11  
12 **Q. Mr. Olea, what was Staff's goal when it agreed to be a Signatory to the Agreement?**

13 A. The primary goal of Staff in this matter, as in all proceedings before the Commission, is to  
14 protect the public interest. Staff believes it has accomplished this by reviewing the facts  
15 presented and making the appropriate recommendations to the Commission for its  
16 consideration. Staff believes the Agreement balances the interests of the Applicants and the  
17 ratepayers, by ensuring that the Regulated Utilities have the tools and financial health to  
18 provide safe, adequate and reliable service, while complying with Commission requirements  
19 of just and reasonable rates and protecting the Regulated Utilities and ratepayers from undue  
20 risk.

21  
22 **Q. Is there anything else you would like to add regarding the Agreement?**

23 A. I would like to reiterate that the settlement discussions were transparent, candid, professional  
24 and open to all parties in this docket. All parties were allowed to openly express their views  
25 and opinions on all issues. I believe the Agreement is in the public interest.

1     **Q.**     **Does this conclude your testimony?**

2     **A.**     Yes, it does.